

VISIT...

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- Maintaining a profitable risk:reward ratio in your trading

● Main Points:

- Let's face it, **daytrading is hard work, and you have to run it like a business** if you are to profit and/or make a living at it. To help migrate from "gambling/playing now and then before work/having fun" into SUCCESS that's Consistently Profitable, enabling you to do this full time from wherever you want to live, you've got to make more than you lose, right?
- It's very true that I can have 70% losing trades but be highly profitable at the end of each day, and at the end of each month. Tiny stops and larger profits is the key. Hey maybe I have to take 3 1/16th-point stops before I get a 5/8 point score...that's profitable for me. Or, maybe I want to scalp a slow mover for consistent 1/4s all day, that's fine too. I have much more often been happy that I sold too soon.
- **Here you will develop your risk:reward trading ratio needed to be effective.** Remember that they are defined by each trader, depending on your trading style and objectives, and must be such that your net wins are bigger than your losses. It's that simple, yet that difficult.
- Think of it as though you're running a casino: you want to set the overall odds slightly (hopefully largely!) in your favor over the long run of trade after trade. This means **you must have defined measures** and a trading plan that you stick to no matter what trade after trade. For every time you stop out and then watch the stock reverse and run up you'll get 2 or more times that it doesn't. **That's what knocks traders out of the game** - all it takes is the "2 or more times it doesn't" to eat away your trading capital. Play a slot machine with a 93% payout and you'll lose capital at the rate of 7% of your stake, nibbling it down to zero. Don't be a gambler in stocks.
- Instead, we'll take a highly disciplined approach that enables you to succeed at this. Note: if you're not a highly disciplined person who can't make rapid decisions with computer-like precision then daytrading is not for you - try swing trading/buying mutual funds instead. :o **Try playing games like Tetris** that force you to make rapid decisions one after another, it's been my favorite for years.

Examples:

Your Risk:Reward ratio is simply the ratio of the average amount you win per trade vs. lose per trade (or per trading day, or week etc.). If you're losing 1/2 points and winning 1/8ths you probably won't be trading for very long, right?

You have to adjust all of this by the number of shares traded, the stock price and the width of the spreads for the stock being played of course.

Let's look at the example on the chart to the right here, for NEON. So let's say you bought is at 57, thinking it sold off "enough" and wouldn't keep going down. Wrong! It keeps plummeting.

Quit time! Do you



Quiz time! Do you:

- a) pray for it to bounce
- b) watch like a deer caught in the headlights of a car, frozen as the price drops out from under you
- c) quickly limit your loss by taking 1/4 point stop on the trade, admitting defeat quickly
- d) decide "I'll hold on to this stock for a few days or weeks, it'll come back sometime, it's a good company, nice analysts ratings, and they just got into a deal with XYX company..."

I hope you're a DTU trader who answers with the correct choice c, we want to trade against all the losers who trade like a, b and d. We take their money.

Daytraders' Play: For NEON, as soon as the market proved you wrong you should've exited the position. Why let a 1/4 point loss turn into a 1-point loss?

After letting the sellers finish, we caught a mini-double bottom at 56, and bought the bottom 3 consecutive times for scalps up to 57 resistance, before it broke through at the end of the day. Very predictable stock pattern.

See, our risk reward ratio in this case (1/4 point loss to 1 point win, on average), is 1:4...**we win 4x as much for every time we lose.**

Think of it like this: if you have a 1:4 loss:win ratio, every "win" you get "buys you 4 chances" to get it right the next time.

Bonus Quiz question: Where else could we have traded the above chart Long based on a key technical indicator you see? (answer: after the last buy/sell cycle where you see a volume breakout indicated right before it goes thru 57 again).

Setting Your Own Risk:Reward Ratio for your Daytrades -

You must, for your own trading style, determine the following:

Once you're in a trade, where is your predetermined stop point at? Use either a key support/resistance level, or a "trading standard" that you use. My stops are always no more than 2 spreads away from where I bought the stock at. **Also determine "where's my trailing stop at"?** (For example, you buy NOVL at 35 1/8, it goes up to 35 1/2 (now you should have a trailing stop at 35 1/4 etc.)

Why? Because **for me to make money I need to have at least an absolute minimum 3:2 win/loss ratio**, meaning that every time I lose 2 spreads I need to make an equivalent trade (volume of shares etc) that gets me a profit of 3 or more spreads. With commissions, trade slippage and other factors I prefer to shoot for a 3:1 or 4:1 target).

Like Serge Milman says in Electronic Daytraders' Secrets (Friedfert/West), "these guys are killing themselves losing points and making quarters".



The first cut is the cheapest one; you have to determine for yourself how far to let a trade go against you before bailing out. I am almost never disappointed in myself for stopping out with -1/8 or - 3/16 or - 1/16 stops all the time. My broker likes this of course; I try to maneuver for high-percentage trades, and don't mind "trying for the win" a few times, even if I take a few small cuts before I nail a 1/2point+ trade w/500 shares.

Of course if you're playing JDSU DISH QCOM DCLK etc then adjust these for the 3/8-point spreads these stocks can trade in. The main thing is to set a stop at no more than 2 spreads away from where you bought in (or at least 2 spreads down from the inside bid). If I'm that wrong about a trade it'll probably get uglier before it gets better.

"The best trades are usually right from the start". eg. I bought the bottom of WCOM on Friday 1/21/2000, nailed it exactly for 500 shares and made \$187 in 7 minutes. Boom.

But, I kept fishing for bottoms for the rest of the day in WCOM and gave back most of my \$187 in commissions :(. Should've taken the money and run, waiting for a breakout above resistance. However, I traded the bottomfishing correctly in that I kept 1/16th point stops. WCOM never did run more than that first successful trade I made.

To make a long story short, I made \$187 on the winner, and lost from \$30-\$45 a couple of times on the times I wasn't right. A breakeven afternoon in WCOM, but at least I managed the trades correctly. Just goes to show you we all make common trading errors, mine was in violating the "don't overtrade" rule. At least it was fun. And wow look at those 1-second order executions.

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[13:23:56] <Confirmed> Buy 500 Shares of WCOM at 41 1/8 using CyBerX
[13:23:57] <Executed> Buy 100 Shares of WCOM at 41 1/16 from ISLD-
[13:23:57] <Executed> Buy 400 Shares of WCOM at 41 1/16 from ISLD+
[13:31:14] <Confirmed> Sell 500 Shares of WCOM at market using CyBerX
[13:31:15] <Executed> Sell 500 Shares of WCOM at 41 7/16 from ISLD-
```

Buy using limit orders,
sell using market orders
in fast-moving stocks.



Ok, your turn. Pick any 3 stocks you trade regularly, and write out on a piece of paper **where the key 5- and 10-day support and resistance levels are at**.

Now, **write down what your stop will be** if you bought a breakout above a key resistance level.

Finally, **write down how far you want to trail your stops at** (I generally use 2 spreads, maybe 1 if I'm trading in size, eg over 500 shares).

As always, papertrade it for a few days to get the hang of it, then trade with small 100-300 share size trades just for practice.

Remember that you can always get back in a stock if you stop out, it climbs down some more, and starts to rebound on volume. Or, if you sell with a profit in an uptrend and it breaks through some key resistance level after pausing for a bit, doing a "shake".

One of the key things I had to learn was to not think in absolutes, saying to myself "well I tried to buy WCOM and I missed it so now I won't trade it anymore today". Instead, be a fighter and if you still have the initial reason to enter the trade in motion in the market for that stock at that time, then try again.

Think of it like "chipping away" at a large gold nugget, waiting for a big piece to break loose and fall into your trading minecar. You'll get some scrapes and dust in your eyes (small stops) along the way, but keep trying. If your reason for entering the trade remains intact (eg a breakout on volume). Wait to buy the dip in an uptrend vs. buying the top and having it fade back. Keep at it. Learn the psychology and behavior of the traders in that stock on that particular day.

Best wishes!

Module Three

The Mental Game of Daytrading:

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MODULE 3

Disciplined Trading: 10 Practical Tips to Stay Ahead of Trading Losses

● Main Points:



Ken
Calhoun

- Aside from reading the book, *The Disciplined Trader*, I've found a number of basic disciplined ideas that help me to stay profitable consistently in the long run.
- Here's 10 quick tips to help you; hopefully you're already using a few of them in your trading.
- If you are and you're still behind, don't worry; just refocus on trying to use 1 to 2 of them differently each day until you're able to say "I'm doing all of these consistently". If you are, you can begin to minimize your losses and start the path to turning around and becoming a more successful, disciplined trader.
- (note: if the spinning rings bug ya, type Alt-V, A to stop animations; View/Stop Animations)



Tip #1: Define your stop and exit target before buying or shorting.

This means to have a predetermined trade plan for the stock before you do anything related to buying, selling or shorting the stock. As targets of opportunity come up on your trading charts and level 2 screens, quickly consider the risk and expected profit before entering the trade.

**Tip #2: Prepare for each day you intend to trade both mentally and physically.**

You have to take a bit of time to get yourself geared up to trade. Trading scared, trading tired or trading with anything less than your full concentration will lead to losses. You may want to start by trading only several days out of each week instead of trying to play daily.

Physically, you should take care of yourself: eat some carbohydrates in the morning, not just coffee, eg toast, a microwave baked potato or rice for energy. Take a few deep breaths, stretch your body a bit. Go for a walk during the lunch hour.

Mentally, you should do your DD (due diligence) and prepare a watchlist for the day prior to the open; once the market has opened also keep an eye on the % gainers/losers/most actives for shorting and bounce opportunities. Get your mind in shape to trade by practicing with a trading simulator or other paper-trade device. I find playing tetris-type games keeps my mind alert to develop the rapid decision-making ability needed to daytrade effectively. Get "Tower of the Ancients" at www.fiendishgames.com, for example.

Finally, if you're not up to trading on one particular day, then don't. Take the day off. The market will still be there tomorrow.

**Tip #3: Scale back your trade sizes if you're losing consistently.**

Nothing can be more mentally devastating than a string of losses. Things seems frustrating, and you're worried about losing even more capital. You want to "get out of the hole and at least break even".

To get there, you need to: 1) review why you lost in the first place: eg was it the stocks you played (like cheap \$5 chatroom pump n dump specials), was it lack of discipline to keep small stops, lack of knowledge of level 2 or chart patterns...etc? 2) papertrade til you are at least 40% successful with your choice of trade entries and exits 3) start back in the game by trading just 100-200 shares (or less, for expensive stocks) 4) work up your share sizes back to 500-1K shares after you are effective for at least a few weeks using 100-200 share size trades.

**Tip #4: Gain more knowledge, regroup and resolve to re-educate and re-train yourself.**

Learning from others who've made it can be a big confidence-builder. I find if I've lost and I'm feeling down I re-read the "Secrets of Successful Daytraders" by Friedfertig/West; I enjoy reading the attitudes and intensity that these guys have in the stories they share. Everyone has different books they like; make a commitment to building a library of "defensive resources" to help encourage you to examine your errors and commit to more successful trading habits.

Much of what you need to be successful is in the subtleties that are not included in many of the books; I'm attempting to bridge that "intermediate/advanced practical gap" with the DTU content. But, the trading basics and friendly authors' voices in many of the books out there are helpful for encouragement and to help you get back on track. Buy a bunch of daytrading books from Amazon.com and return the ones you don't like. Also, get some of the tapes from last year's daytrading expo at <http://www.onlinetradingexpo.com/recordings.html> and the recordings at www.worldwidetraders.com in the members' area. I find listening to other traders as well as reading their words is helpful. Tell them I sent you.

**Tip #5: Get in touch with other daytraders in your area.**

If there is no group, consider starting one to meet and share trading strategies. Tim of "Daytraders of Orange County" started the big chapter down there, see if you can get an informal monthly meeting at a local restaurant started to swap daytrading strategies and techniques with others. I plan to start up a chapter here in Hawaii if I have time (hah), you may have luck by contacting others in your area.

The worldwidetraders.com has geographic contact info. for other traders in each state/country, start by emailing others, perhaps phoning a few local brokers to see if they know of anyone who daytraders that would like to meet every now and then. Daytrading can be a lonely job; it's good to share and get encouragement from others.

Tip #6: Change the stocks you trade, and narrow your focus.

An ongoing personal trading challenge I have is to keep my list down to under 20 stocks I watch each day; it's entirely true that you can make a living daytrading a single stock (or a small group of 1-5 stocks).

There's so many to choose from it's tough to limit yourself! It's kind of like going to a nightclub or bar with a lot of women to dance with; you have to choose carefully or you might get a bad one (ok I'm stretching, but you get the analogy). (^_^)

It's easy to get in the habit of following a few "favorite stocks"; but you must exercise discipline and ask yourself questions like "ok, of the last 5 trades I did with this stock how many were winners, and what's my profit and loss trading that stock?". Since you now know to run your trading like a business, you must cut that stock loose and not trade it anymore if you aren't successful with it. Many stocks are very difficult to daytrade consistently (like INTC MSFT for me, at least); remember to pick stocks that meet our [trading criteria](#).

Change the stocks you trade, no matter how much you "like them", if they aren't making money for you. Some stocks are difficult, low-percentage stocks to daytrade. Recognize this and move on. For daytrading I like CIEN NOVL DCLK AMZN SPLS, for example. Your mileage may vary; e.g. try stocks you tend to do well with.

Tip #7: Experiment with different trading styles; e.g. go to swing trading for awhile.

If your daytrades are losing you money; you might want to try a different trading style for a couple of months, eg fade back to swing trading (buying and holding from 2 days to a week or more, depending on when a good profit is reached).

Many traders are more effective at swing trading and investing than they are at daytrading. Make sure you do not mix the two trading styles, however! Your stops are generally looser for swing trades, and your profit expectation is also higher. In swing trades, you will carefully use the 5- and 10-day charts, along with standard longer term indicators like the 50- 100- and 200-day MA lines for support and resistance. You will be keenly aware of earnings dates for not only your stock but those of major customers for the stock you are buying that might impact your stock.

The key is to not mix the two and treat your swing trade like a daytrade. Sure, if your swing trade runs up and you make a good profit then take it (eg I recently swing traded DBCC from 8 1/2 to over 9 and took profit when it looked good).

Tip #8: Don't "average down" (adding to losers) or use other bad trader habits.

"But it worked for me the last time I did it", you exclaim. Well sure, and Tennessee got to the playoffs this year too, but over time it will not work. It's ok to add to your winners in a small pyramid (eg buy 500 at 44 1/8, add another 200 at 44 1/4, sell them all at

44 15/16). Do Not average down (bought 200 at 33 1/2, bought another 200 at 33 'cuz it looks cheap, bought 500 more at 31 because I know it can't possibly go any lower than this, then capitulate and sell them all for a loss at your 30 stop. After which, of course, it rebounds.). Sound familiar?

Don't do it, just say no to "averaging down", a loser's way of playing the market. buy strong stocks, sell weak stocks. It's like golf, you need to get rid of bad swing habits that cause slicing, in your daytrading you have to eliminate losers' trading habits like averaging down, even if it did work for you on a couple of occasions. Also avoid trading on choppy, low percentage days, or during the lunchhour (in general).



Tip #9: Change your trading environment drastically.

Go buy a better chair (I use a leather execs chair w/built in massage that swivels, very comfortable and effective), get ergonomic keyboard and mouse (I use a legal pad for a mouse pad, best idea I've ever had, I write my day's trades on it w/notes etc).

Change your monitor and computer setup: perhaps change from one wall of the room you're in to another wall, reconfigure the tables and chair. Above all, make it comfortable and clean. A cluttered trading environment is bad for you.

Add motivational posters and sayings to your trade area. I use a coffee mug from Successories that says "Expect to Win". I do. Also, have reminders posted to your monitors (I have "Tight Stops - No Exceptions" posted and it still helps me to remember to get out fast when I'm wrong). Read Tony Robbins' books over and over again. If you really get into it, you'll start to believe, and make it happen. Expect success of yourself, and be willing to "do it right" to achieve your goals.



Tip #10: Ok I'll say it again: Resolve to Keep Small Stops, and Use Trailing Stops to Lock in Profits on the Way Up. Discipline, discipline, and more discipline.

Anyone teaching about daytrading can't say this enough, because more people say they'll do it but waffle when they're in a trade and lose their money than I can keep track of. your trading should be highly mechanical, not emotional. System-based.

This is a game that requires absolute discipline, concentration, and rapid decision-making abilities. If you cannot do this, then put your money in a mutual fund and go work for another man for a living.

Personally, the thought of putting up with the bs that goes on at most companies (and the horrific loss of personal time that goes with a 8-10 hour day job) is a tremendous motivator for me to abide by the rules of this game. Life is too short to spend any amount of it working in someone else's office. Being your own boss is exhilarating. Ran my own training business here in Hawaii for a few years, over 130 clients, now daytrading full time. It's great.

Having time to golf, spend with my new baby and wife, and enjoy shopping and fine dining here in Honolulu is a "dream life" that I do not want to sacrifice. Daytrading enables this lifestyle, the price is intense study, continuous learning and commitment to follow the rules.

Expect success from your efforts. Commit to changing your life. It can happen, if you're strong enough. Most people aren't. Good luck with it.

- Setting Daily Profit and Loss Targets: How to Know When to Hold, When to Fold

● **Main Points:**

- Developing the skills to know the best price to **take a stop loss** or **take profits** at takes plenty of practice. Nobody ever gets the exact top and bottom consistently, your goal should be to take a piece of the price movement off the table as profit for good trades and/or exit the trade at a minimal loss if you're wrong.
- One of your best tools in this area, besides knowing the 10-day support and resistance levels, and intraday volume and range, is your own sense of when the stock is overextended or oversold and **"looks good" to you** for a buy or sell. In daytrading, we look for the extremes and play retracements off the extremes. The obvious example is an opening gap up or gap down; eg if the futures are -15 or worse on the open (a rare occurrence) you'd expect some buying, with a retracement into the single digits, as stock prices "look cheap" to traders and institutional investors.
Remember, what "looks good" to a professional is typically more of an extreme than what "looks good" to a beginner. If my stock is up over 12% on the day, I'll look to sell. If a stock is down over 5% on the day around 10:30 on no news, I may be looking to buy.
- Many people say you should not have profit targets and to 'let the stock tell you' when it's time to sell. Rubbish. If your stock trade is over 5-10% in your favor then take a profit, eg you bought at 20 and it's now at 21 3/4 or 22 1/2....I'd look to take the profit, or at least sell half your position to lock in the profit and 'wait and see' for the rest of your position, using a trailing stop.
- If the loss is over 1-2% against you, eg you bought at 20 and now it's 19 3/4 and dropping, look to stop out and wait for a lower entry price. You can always buy the stock back...the commission is an insignificant percentage of your total potential gain or loss....get in the habit of buying, stopping out small, taking profits healthy, and you'll be a successful trader.
- **Taking small stops continues to be the #1 challenge for virtually all traders; we need to put trading rules in place to help us have the discipline to exit a losing trade quickly, and re-enter when the price has stabilized and is back on the upswing (it may not be til another trading day).**
- Each trading day is it's own "world", spend a lot more time than you currently do looking at the daily composite charts (\$COMPQ, \$SPX, \$TRINQ/\$TICK) as well as sector charts like \$RLX \$SOX \$GIN. This tells you you if there's more net buying or selling, along with the trend, for the group of stocks that you are trading. They are major indicators that you should use to determine money flow direction; far too many traders ignore the sector and market indexes, focusing only on their stocks' intraday charts. The major indexes can help you see the overall direction of the market, which you should pay a lot of attention to.
- Determining support and resistance levels will help you decide where your stops and profit targets should be, remember to stay at least 1/4 point ahead of the market in your timing so that you can sell into buying strength and buy on panic dips and buys.

PROFIT AND LOSS TARGET GUIDELINES for TRADERS:



Deciding When You're Going to SELL is MUCH More Important than When you're going to Buy

- Unlike conventional trading, you should spend 80% of your time and energy figuring out where you will sell and 20% of the time on where to buy. Most traders have it wrong and put a ton of energy into figuring out where to buy, with little energy being spent on managing the more important Sell side of the transaction.
- Try setting sell targets at slightly under where you bought (for stop losses) and use trailing stops to lock in profits. Stay a spread or two under the average "wiggle" in the stock price, eg if it wiggles in 16ths in a 1/4-point wide band on the way up, use a trailing stop right under the 'wiggle/shake' area.
- **Managing the sell side of your stock trades is much more important to your success as a trader than managing the buy side.** Most traders fail at this

Set Your Targets BEFORE You Trade

- Most traders do a haphazard job at best in this critical area - impulsively buying near the top of a stock, getting shaken out or taking a loss.
- By "set your targets before you trade" I mean WRITE THEM DOWN IN FRONT OF YOU on a piece of paper: where is your stop loss, where will you sell to lock in profit?
- If you are trading in size, over 500 shares, jot down a quick note of how you will scale out of the position as the price goes up. What's your strategy? Make sure to have one.

If You Can't Keep Your Targets, Make Your Software/Broker Do It For You

- Most software platforms, including Cyberx, Datek and others, let you set stop losses and sell prices to automatically trigger for you.
- Many people like to go with "mental stops". This is fine if you're experienced and scalping teenies or flipping 1/4s and 1/8ths, but if you're new/intermediate you really should **use mechanical stops at first**. At least for some of your trades.
- Experiment with the software, I get frequent trader questions from people who need to know the basics of what a sell limit order vs market order etc. is. Please see the help resources available at your broker and call them to ask them to explain how their particular software platform works to help you set stop limit orders. Use them.

Scale In and Out of Positions Using Targets

- When you're trading more than 500 shares or so, you should scale in and out of positions, unless an unusually large move warrants immediate action on the entire lot.
- **SCALING IN:** When you buy a stock that's going up and you add more stock/buy more as the price keeps going up. This is for those rare occasions when you've "caught a runner early in a breakout" and there's still a lot of upside left, in your opinion. You might also scale in as an "Average down" on very rare occasions for swing trades, but remember your pyramid must be built with larger positions at successively lower prices, vs incremental adds on the way down (more on this strategy in a later lesson).
- **SCALING OUT:** This is when you are gradually selling off your position a bit at a time, lets say you have 1000 DELL at 52 1/16th and the price is up to 52 5/8 from your buy point, you might want to sell 500 at the 5/8 and wait to see where the price goes before selling the rest of your position. If the level 2 shows thin support at 1/2 and the price starts to drop, then you might close out the balance of your position at the 1/2, locking in profit before the price drops. Or, if the price keeps running up you might sell at 7/8, taking profits of 500 shares at 5/8 and 500 shares at 7/8.

- Use targets to determine ahead of time how you will manage your scale-in and scale-out trades. This is particularly important in the case of stock going against you, you might scale out most of your position at the initial stop, say 800/1000 shares, keeping 200 to see if you get a bounce if it doesn't bounce where you thought it would, then sell off the remaining 200 and wait for a consolidation before buying back in again.

The Mental Game of Trading and the Successful Use of Trading Targets



- Does trading occasionally cause stress for you and get on your nerves?
- I have found that it brings much calm and order when I have designed the borders for my trades ahead of time: the borders being my stops and exit targets.
- It's also a useful trading development tool, as you can look back over the charts and trade stops/profits to see where you stopped out too soon or too late and where you took profits too soon or too late.
- To trade consistently for a living and have a net profit at trading absolutely requires a long string of base hits vs. home runs. Your trading stops and targets will help you decide when to take profits and when to stay in the trade.
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When to Hold and When to Fold?

Although I'm not a big Kenny Rogers fan, his song captures the essence of successful trading in some ways.

You have to decide, ahead of time, when you will let the ante go to the other fellow (your small 1/4 point stop), and when to hold your trade for more profit.

If the cards are against you in a trade after you've ante'd up then give up the trade, take a small hit,

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- To trade consistently for a living and have a net profit at trading absolutely requires a long string of base hits vs. home runs. Your trading stops and targets will help you decide when to take profits and when to stay in the trade. internalize them. Your trading must bring out your best, most competitive expect-to-win qualities. Use trading as a vehicle to help you gain financial independence and to develop these important personal success characteristics.

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- Becoming a Better Trader: Having Patience with Yourself

● Main Points:

- **After discipline, patience is the second-most important personal skill to develop to help improve your trading profits.**
- One of the challenges we all face in trying new trading styles is that we can, for example, be too impatient with our swing trades and use a daytrading-type profit target (recent example (Mar 2000) I bought ROST at 13 and sold 3 days later at 15, but holding another week would've given me 22. I took a 15% profit but could've had 80% if I'd been more patient with that swing trade. Could've would've should've have no place in our trading self-talk, though!).
- Entry, exit and profit targets all help build patience, let's look at a few new ideas, though.
- In daytrading, much of our impatience comes from a sense of "not knowing what to do". This can be the 90% of the time you're watching a stock looking for a good place to buy, it can be from feeling frustrated that you haven't made a lot of good trades lately, or it may come from the greed to take quick profits when you should let the trade sit longer so you can book a bigger profit.
- Determining support and resistance levels, along with patterns, such as cup and handles, breakouts from trading ranges, trading channels and trends, are all key in helping you decide if you're being too hasty or too slow in terms of your patience with a trade.
- **Patience should not be confused with taking large losses or letting a trade get away from you with a stop that's inappropriate for the trade timeframe** (scalp/day/swing/position) and number of shares you're trading, however.
- **Don't "be patient" with a stock whose price is falling, for example.** Sell at a tiny stop and patiently wait for a better time to enter the trade, if opportunity presents itself.
- **Be patient with a stock whose price is rising**, locking in profits with a trailing stop.
- **Personal patience** can be enhanced by a number of simple activities, such as slowly counting to 20, or slowly reading off the day's closing price for each of the last 20 trading days in one of your favorite stocks, for example.
- Why is patience important to the trader? We need it for several reasons:
 - to avoid selling too soon and taking overly-small profits
 - to avoid overtrading and commission churn
 - to avoid entering bad trades
 - to use more professional trading techniques, like buying at the bid and selling at the ask
- Why is patience important to helping you develop your personal trading style? Can you think of several benefits, or reasons, why you need to personally devote some time and energy to trading patience?

Exceptions for taking fast profits: when a stock jumps up over 15% or more you should set a stop right under the peak, or sell into buyers.... but those are rare occurrences. Below is an example from March 29, 2000 on how selling a spike is fine, and patience is not called for (compelling immediate profits are always good to take!):

Orders	Exec	Trades	Opens	Alerts	Stats	None
Stock	Bought	Shar...	Sold	+/-	P&L	
HRL	15 3/8	200	16 11/16	+1 5/16	262.50	

\$262 profit taken on small HRL swing trade March 29 2000.

Sell signal: 16% price spike on no news, time to sell and rebuy on pullback.

Defining your time horizon and profit/sell targets prior to entering the trade will let you know if you're being "patient enough" as well. If you're buying a stock that's just been cut in half on bad earnings, for example, I'd set a 15%-25% retracement sell target, eg it goes from 60 to 30, you buy at 30 1/4, the sell target might be 34-36 or so for a swing trade and maybe 31-32 on a day trade.

Trading Areas to Develop Patience In:

Personal Learning

- Almost all traders I work with underestimate how much there is to learn about trading stocks for profits - have patience with yourself.
- You should read at least 15 books on stock trading, highlight them, make notes and develop your own set of trading tips. Most of the books are too basic, but they do offer a starting place.
- Going up against the stock market unarmed with detailed trading skills leads to financial losses - the success is in the details of learning how to trade.
- To help develop patience in this area, try making a commitment for how many hours each week you will set aside to learn our DTU content and content from other sources.



When to Buy

- Avoiding choppy or low-percentage trades is an important success skill. Most of the time, you will be watching the charts, not actively trading. Figuring out when a breakthrough or reversal is about to occur is the skill to work on.
- When to buy? It's always better to avoid questionable entries and wait a bit before plunging into a trade because you're bored or *because of a CNBC or chatroom call*.
- Since it's your money, be very careful before you hit the 'buy' button. Enter your positions in small increments, eg start with 100-300 shares and build the position up from there, don't just jump in to buy 1K unless it's really on fire, a rarity.
- Try calling the intraday tops and bottoms of your stocks by papertrading, based on the 3-5 day support and resistance, as a skill-building activity.



Stock Research/TAVDD

- Many traders want chat room and site picks vs. doing their own stock research. This is a mistake. You need to be an independent, strong trader, not using a crutch of other people's stock picks, many of which are incorrect anyways.
- Learning Technical Analysis is a core trading requirement and takes months of study. We provide patterns and training here at the site to help out, it will take you many hours of practice and market watching before you can correctly identify overbought/oversold/trending stocks that you can trade profitably.
- To develop patience here, use our worksheets and other materials you develop yourself to help you decide what the buy and sell signals are for stocks that you are watching or trading.

When to Sell

- Traders' success depends largely on their sell decisions. Sometimes it is difficult to hold a stock that is showing a decent profit. Other times it is difficult to sell a stock that is showing a small loss. You must learn to do both consistently, and professionally.
- Depending on your trade time horizon, you should look at support and resistance levels, trends and volatility to help you determine when you have gotten enough profit out of your trades, or when to cut a loss.
- I have found that selling when the stock is up over 12% for the day, or when it fails to make a higher top after 10:10 am for overnight holds etc. are good times to sell. Selling fast with profits in your pocket is an effective strategy.
- I have lost when I've held on "just a bit longer" for intraday trade selling decisions. The time to sell is on a minor shake after the stock has run up in your favor a fair amount. Example, you buy DCLK at 81 and it's up to 88 1/2, you might set a trailing stop at 88 or 87 1/2 and close the position before it turns against you and trades down to 83.

Trade Time Horizon vs # Shares

- FIRST QUESTION TO ANSWER: If I buy this stock, how long am I willing to hold it to show a profit? What are my stop and profit targets?
- SECOND QUESTION: Is this the best price level I'm likely to get for this stock on this trading day, or can I get a better price by entering after lunch selling is done?
- THIRD QUESTION: How many technical and momentum indicators are lined up to support my decision to trade this stock?
- FOURTH QUESTION: How many shares will I buy? Should I "scale in" to the position by buying a few hundred here and adding, or should I buy the whole position at once?
- These are the types of questions you should be asking yourself, and yes they require patience, plenty of it!
- To help develop patience in this areas, think of the market like a professional does: we don't get excited over much of anything, we know the ranges and behaviors of a handful of stocks we trade regularly, and we are on the casual lookout for high-percentage opportunities.
- Example: I'm a SPLS trader and buy from 18-20 and sell from 21-23, on swing trades. If I'm daytrading it, I look for MSCO on the inside bid and know that it gets it's first peak around 10am, so I look to buy on open or wait til after lunch if it's still showing strength. That's about it. No magic, no uncertainty, I know this stock and profit from it 90% of the time I trade it. It's not exciting. It's a job. I know how to produce money trading this stock.
- For yourself, focus on just a handful of stocks you want to trade that have nice volatility (but not too much, like SPYG MSTR GENE etc, unless you're an experienced trader). Put the hard work, discipline and patience needed into understanding what these stocks do MOST of the TIME. That way, you're not surprised by the stock, and can reliably choose good buy and sell price levels.
- That's how you trade, folks - realize when there's a good price level to be had, and buy it. Or, realize when there's a lot of trading excitement in the stock AND THERE'S STILL LIKELY TO BE ENOUGH FOR YOU TO PROFIT FROM IN THE NEXT 15 MINUTES. A big mistake I see far too many amateur chatroom traders make is to enter WAY too LATE. You should skeptically look at a chart and say to yourself things like "yes the PMTC entry Would Have Been Good, way back at 11 3/4, now it's at 12 7/8 and most of the momentum is out of the stock, I Should Not buy here." Don't buy stock at 10:00am, in general, that's when I sell most of my stock, I like to buy on down days around 10:30 for the bounce, if we started off on a down day, or play the afternoon short cover rallies and bounces.
- Patience to NOT TRADE is the most important one to develop. Study all the examples at DTU and try to see things from a pros standpoint: why do we care about a stock, how closely do we have to fine-tune our trades to make them profitable?
- Patience to Let Your Winners Run (for Swing trades only!) is the second-most important.
- Nibble at the market consistently, don't wait for home run \$1000 trades all the time. I am happy to exit a trade of 100-300 shares with a \$180 - \$350 profit. With 1K shares I want \$600-\$800 or more. (unless I am tick scalping, in which case the \$125s 1/8th point on 1K shares is fine).
- Do Not Be Patient when it Comes to Small Stops, however!!!! Don't stay in a losing trade and say to yourself "I need to be patient with it". If it's a daytrade, take the small loss and wait for a better entry. Like I said, you can try to enter the position 2-3 times on the way down waiting for a bottom, with 1/16th - 1/8th point stops. No big deal. Or, buy breakouts and set the stop right under the support line.